

7th September 2007

Hydrodec Group plc

Interim Results

Hydrodec Group plc (AIM:HYR) today announces unaudited Interim Results for the six months ended 30 June 2007.

Operational:

- *Superfine* sales growth throughout the period and beyond
- Significant developments in key US market
- Successful £2.3m placing in June 2007
- Transformer oil market continues to move in Hydrodec's favour

Financial:

- Revenues: £689,666 (2006: £413,302)
- Net operating loss £1,167,153 (2006: £1,149,457)
- Net assets £12,391,962 (2005: £10,880,046)

Hydrodec Chairman John Gunn commented: "Sales of *Superfine* are now surpassing 50% of Young's production capacity, and current trends indicate sold capacity exceeding 75% in the near future, which is a tremendous achievement so soon into Hydrodec's development. Commercial developments within the key US market continue apace as negotiations on the US funding package are progressed in parallel.

The dynamics of the global transformer oil market continue to move in favour of *Superfine* oil. The sustainable, controllable nature of *Superfine* is ever more relevant in today's unpredictable world and I hope to report significant further progress soon."

For further information please contact:-

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CHAIRMANS STATEMENT

I am pleased to present Hydrodec's unaudited interim accounts for the six months ended 30th June 2007. Hydrodec's technology is an oil refining process, producing new speciality oils, using spent oil as the primary feedstock. The process also removes dangerous contaminants such as PCB's from oil and similar fluids. The technology can be applied to many speciality oils, but initially the Company is concentrating on the transformer oil industry. Old transformer oil that has been refined through the Hydrodec process becomes *Superfine* oil.

Results for six months ended 30th June 2007

Turnover for the period increased by 67% to £689,666 (2006: £413,302), with an overall operating loss of £1,167,153 (2006: £1,149,457). The operating loss includes £358,099 of depreciation and the amortisation. Net assets increased by 14% to £12,391,962 (2006: £10,880,046), including cash balances of £2,284,324 (2006: £493,257).

Commercial developments

During the period, the Company secured Australian sales with significant potential value. In February, it was announced Schneider Australia has agreed in principle to allocate up to 75% of its annual new transformer oil purchase in Australia, to *Superfine*. This represents an expected uptake of 3,000 litres of *Superfine* per day, representing up to 15% of Hydrodec's production capacity in Australia. Schneider Electric is a key manufacturer of distribution transformers in Australia, supplying to major power utilities across the country and is one of Australia's larger transformer oil purchasers.

In April, it was announced that two Australian power utilities, the two largest electricity distribution companies in Victoria, have approved *Superfine* for use in their new transformers. This, together with the previously announced approval from a major South Australian distribution utility, means use of *Superfine* has been approved by three companies that operate a large proportion of the electricity distribution system across Southern Australia.

The Company was also recently awarded its first significant high-level PCB contaminated equipment treatment project. The AU\$250,000 contract involves the treatment of 610 concentrated PCB filled capacitors and augments the previously announced power industry hardware services business in Australia.

Funding and US developments

On 11th June, Hydrodec announced the placing of 9,200,000 new shares, raising £2,300,000 gross (the 'Placing'). The funds from the Placing are being used to commence construction of Hydrodec's first US plant in Canton, Ohio. Canton was chosen due to its location in one of the major industrial regions in the USA, close to both the suppliers of feedstock oil and potential *Superfine* transformer oil customers. As previously announced, the State of Ohio and the City of Canton have also provided a package of incentives to Hydrodec. The Company has received the majority of the necessary development and construction approvals for the site. Construction of the plant, commencing with site earthworks and major critical path items such as the tank farm,

has now commenced. Orders are being placed for equipment that has a long lead-time for delivery. All major civil construction and building contracts will be put out to tender and are expected to be awarded shortly thereafter.

Commencement of construction should enable major weather dependent works to be completed prior to the onset of Ohio's harsh winter. Completion of these works enables key process plant assembly activities to progress on schedule under cover during the winter months, thus avoiding several months of delays to the construction programme.

The Placing will also facilitate the creation of a formal US infrastructure for Hydrodec, starting with the recruitment of Ohio staff, much of the cost of which has been subsidised by the State. Hydrodec will be able to commence the next stage of marketing and business development within the transformer oil industry and further develop relations with existing operators. This will allow the Company to seek expressions of interest and to negotiate possible take off agreements, both supply-side for used feedstock oil and demand-side for Superfine.

Hydrodec continues to finalise plans for the location and structure of a second US plant to be located in Mississippi. A short-list of potential sites has been identified, but there are a number of logistical and grant issues to be confirmed with the State of Mississippi. Significant legal, logistical, development work and lobbying has already taken place, and an announcement on a location for the plant will be made as soon as this is finally determined.

EGM

An EGM to grant the directors authority to enable the Company to issue 10% of the enlarged issued share capital of the Company for cash on a non-pre-emptive basis without recourse to shareholders was held and passed on 10th July 2007.

The transformer oil market

The market price for transformer oil increased during the period. List price increases were announced by producers in the USA and escalating crude oil prices have started to feed through to the market place. Power industry infrastructure replacement programs and upgrades are also gathering momentum in the USA and Australia, increasing short and medium term demand for transformer oils. The ongoing tight supply situation combined with increasing price and demand is providing progressive improvement in Hydrodec's competitive position in its two current key markets Australia and the USA.

In Japan, a review of regulations pertaining to PCB contaminated transformer oils is indicating a substantial program of oil treatment over the coming ten years creating a substantial opportunity for Hydrodec to accelerate development of a position in the Japanese market.

Current trading

Superfine sales volumes have increased throughout the period and this trend has continued post period end. Sales are now surpassing 50% of Young's production capacity and the current trend indicates sold capacity exceeding 75% in the near future.

The future

Sales progress in Australia in the period was most encouraging. The switch by Schneider Electric to Superfine and approvals from Hong Kong owned utilities represent an important shift in the new transformer oil market in Australia. Towards the end of the period the two primary power distribution utilities serving the highest growth region of Australia consented to the use of *Superfine* in new transformer hardware. It demonstrated the technical credentials of *Superfine* for use in new transformer and associated equipment and confirms the competitiveness of Hydrodec's refining process in the new oil market.

A crucial step in Hydrodec's development is the construction of the Ohio plant. This, together with the development of the Mississippi plant, shows the serious intentions Hydrodec have within the US transformer oil market. I hope to be able to announce further details of the financing arrangements for these two plants soon.

The dynamics of the global transformer oil market continue to move in favour of *Superfine* oil. The key advantages of sustainability, a predictable price and the world-class product that Hydrodec provide remain as compelling as ever in today's market place. I look forward to announcing further significant corporate and commercial developments soon.

John Gunn
Non-executive Chairman
7th September 2007

CONSOLIDATED PROFIT AND LOSS

	(Unaudited) 6 months ended 30 June 2007	(Unaudited) 6 months ended 30 June 2006
Note	£	£
Turnover	689,666	413,302
Cost of sales	<u>(271,180)</u>	<u>(164,849)</u>
Gross profit	418,486	248,453
Administrative expenses	<u>(1,585,639)</u>	<u>(1,397,910)</u>
Operating loss	(1,167,153)	(1,149,457)
Interest receivable	<u>21,149</u>	<u>53,928</u>
Loss on ordinary activities before and after taxation	<u>(1,146,004)</u>	<u>(1,095,529)</u>
Loss retained for the period	<u><u>(1,146,004)</u></u>	<u><u>(1,095,529)</u></u>
Loss per share		
Basic	4 <u><u>(0.62)p</u></u>	<u><u>(0.61)p</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	(Unaudited) 6 months ended 30 June 2007	(Unaudited) 6 months ended 30 June 2006
	£	£
Loss for the financial period	(1,146,004)	(1,095,529)
Currency differences	<u>181,312</u>	<u>(159,611)</u>
Total recognised losses	<u><u>(964,692)</u></u>	<u><u>(1,255,140)</u></u>

CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 June 2007	(Unaudited) As at 30 June 2006
	Note	£	£
Fixed assets			
Intangible	6	6,555,003	7,079,403
Tangible assets		<u>3,843,678</u>	<u>3,450,036</u>
		<u>10,398,681</u>	<u>10,529,439</u>
Current assets			
Debtors		323,863	375,116
Inventory		189,022	-
Prepayments		68,170	-
Cash at bank and in hand		<u>2,284,324</u>	<u>493,257</u>
		<u>2,865,379</u>	<u>868,373</u>
Creditors: amounts falling due within one year		<u>(445,070)</u>	<u>(376,054)</u>
Net current assets		<u>2,420,309</u>	<u>492,319</u>
Creditors: amounts falling due after one year		<u>(427,028)</u>	<u>(141,712)</u>
Total assets less current liabilities		<u>12,391,962</u>	<u>10,880,046</u>
Capital and reserves			
Called up share capital		969,227	893,227
Share premium account		19,125,567	15,325,306
Share options reserve		2,253,134	1,913,889
Foreign exchange reserve		(3,704)	(163,473)
Profit and loss account		<u>(9,952,262)</u>	<u>(7,088,903)</u>
Equity shareholders' funds	7	<u>12,391,962</u>	<u>10,880,046</u>

CASH FLOW STATEMENT

	(Unaudited) 6 months ended 30 June 2007	(Unaudited) 6 months ended 30 June 2006
Note	£	£
Net cash (outflow)/inflow from operating activities	(905,793)	(1,540,082)
Returns on investments and servicing of finance		
Interest received	21,149	53,928
Taxation	-	-
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(134,173)	(1,353,818)
Financing		
Issue of new shares	2,300,000	72,617
Share issue costs	(92,000)	-
Previous years share issue costs refunded	72,261	-
(Decrease)/increase in cash	9 1,261,444	(2,767,355)

NOTES TO THE INTERIM REPORT

1 BASIS OF PREPARATION

The interim consolidated financial statements for the six months ended 30 June 2007 have been prepared under applicable International Financial Reporting Standards adopted by the European Union (“IFRS”) which include International Accounting Standards and interpretations issued by the International Accounting Standards Board and its committees, which are expected to be endorsed by the European Union.

This interim financial information has been prepared on the historical cost basis. The accounting policies applied are consistent with those adopted and disclosed in the annual financial statements for the period ended 31 December 2006.

The financial information included in this document does not comprise statutory accounts within the meaning of section 240 of the Companies act 1985. The comparative figures for the financial period ended 31 December 2006 are extracted from the statutory financial statements for that period which have been filed with the Registrar of Companies and on which the auditor gave an unqualified report, without any statement under section 237 (2) or (3) of the Companies Act 1985.

The financial information is unaudited and has not been reviewed by the auditor.

2 PUBLICATION OF NON-STATUTORY ACCOUNTS

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

3 TAXATION

There is no tax charge for the interim period.

4 EARNINGS PER SHARE

	6 months ended 30 June 2007	6 months ended 30 June 2006
	£	£
Loss for the financial period	<u>(1,146,005)</u>	<u>1,095,529</u>
	Number of shares	Number of shares
Weighted average number of shares in issue	<u>185,611,148</u>	<u>178,645,402</u>
For basic earnings per share	<u>(0.62)p</u>	<u>(0.61)p</u>

5 DIVIDENDS

No dividends have been paid or proposed for the period.

6 INTANGIBLE FIXED ASSETS

	(Unaudited) £
<i>Cost</i>	
At 31 December 2006 and 30 June 2007	<u>7,866,003</u>
<i>Amortisation</i>	
At 31 December 2006	1,048,800
Charge for the period	262,200
At 30 June 2007	<u>1,311,000</u>
<i>Net book value</i>	
At 30 June 2007	<u>6,555,003</u>
At 31 December 2006	<u>6,817,203</u>

The goodwill arises on the acquisition of Hydrodec Development Corporation Pty Limited and is being amortised over its estimated useful life of 15 years.

7 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	(Unaudited) As at 30 June 2007 No.
Authorised Ordinary shares of 0.5 pence each	<u>800,000,000</u>
Issued and fully paid - ordinary shares of 0.5 pence each	
At 31 December 2006	184,645,400
Issued for cash	9,200,000
At 30 June 2007	<u>193,845,400</u>

The company issued the following 0.5 pence ordinary shares during the period:

Date of issue	Number of shares	Issue price	Total consideration					
			£					
			Share capital	Share premium	Foreign exchange reserve	Profit and loss account	Share option reserve	Total
			£	£	£	£	£	£
11 June 2007	9,200,000	25 pence				2,300,000		
At 31 December 2006			923,227	16,891,306	(185,016)	(8,806,258)	2,140,052	10,963,311
Recognition of value of options issued to employees							113,082	113,082

Foreign exchange differences			181,312		181,312
Loss for the period			(1,146,004)		(1,146,004)
Issue of shares	46,000	2,254,000			2,300,000
Issue costs		(92,000)			(92,000)
Refund of VAT on expenses previously written off to Share premium		72,261			72,261
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	969,227	19,125,567	(3,704)	(9,952,262)	2,253,134
					12,391,962
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8 NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	(Unaudited) 6 months ended 30 June 2007	(Unaudited) 6 months ended 30 June 2006
	£	£
Operating loss	(1,167,153)	(1,149,457)
Depreciation	95,899	13,262
Amortisation of goodwill	262,200	262,200
Share based payments	113,082	-
(Increase) in debtors	(128,533)	(119,496)
(Increase) in prepayments and other receivables	(78,888)	-
Decrease in inventories	(113,661)	2,526
(Decrease) in creditors	(25,473)	(422,308)
Increase in employee entitlements	1,797	32,802
Finance charges	138,686	-
Movement in Foreign Exchange	(3,749)	(159,611)
Net cash (outflow)/inflow from operating activities	<u>(905,793)</u>	<u>(1,540,082)</u>

9 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	(Unaudited) 6 months ended 30 June 2007	(Unaudited) 6 months ended 30 June 2006
	£	£
(Decrease)/increase in cash in the period	1,261,444	(2,767,355)
Net funds at the beginning of the period	891,913	3,260,612
Net funds at the end of the period	<u>2,153,357</u>	<u>493,257</u>